

INTRODUCTION TO THE PRICING STRATEGY AND PRACTICE

Liping Jiang, Associate Professor
Copenhagen Business School
14th December, 2016



Figure source: Scanpix

What is the issue?

Why is it important?

What can be done?

What is the issue?

Why is it important?

What can be done?



PRICE TOO HIGH

- Drive customer away

PRICE TOO LOW

- Limited profit margin
- Negative effect on how customer perceives the product quality



CHARACTERISTICS

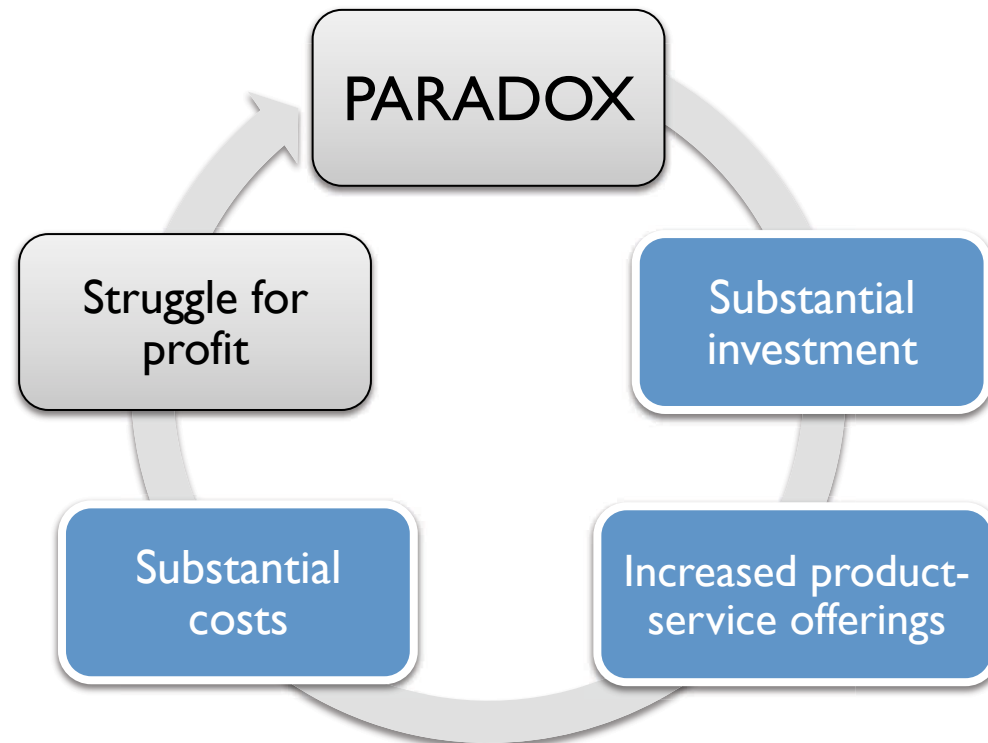
- Intangibility
- Inseparability
- Variability
- Perishability

CHALLENGES

- Underpriced
- Promised at performance levels that cannot be delivered profitably
- Insufficient estimation of costs related to risks

Source: Avlonitis and Indounas, 2005

Price is undermanaged

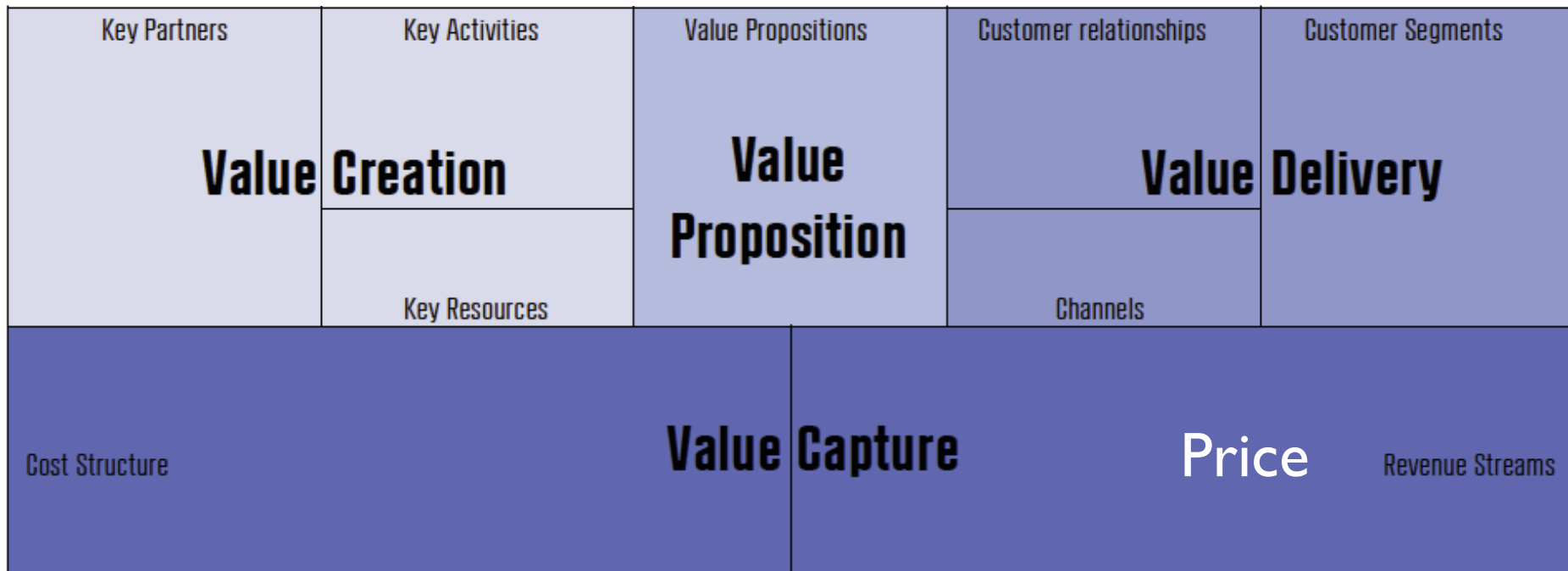


What is the issue?

Why is it important?

What can be done?

- Pricing is a key aspect of your business

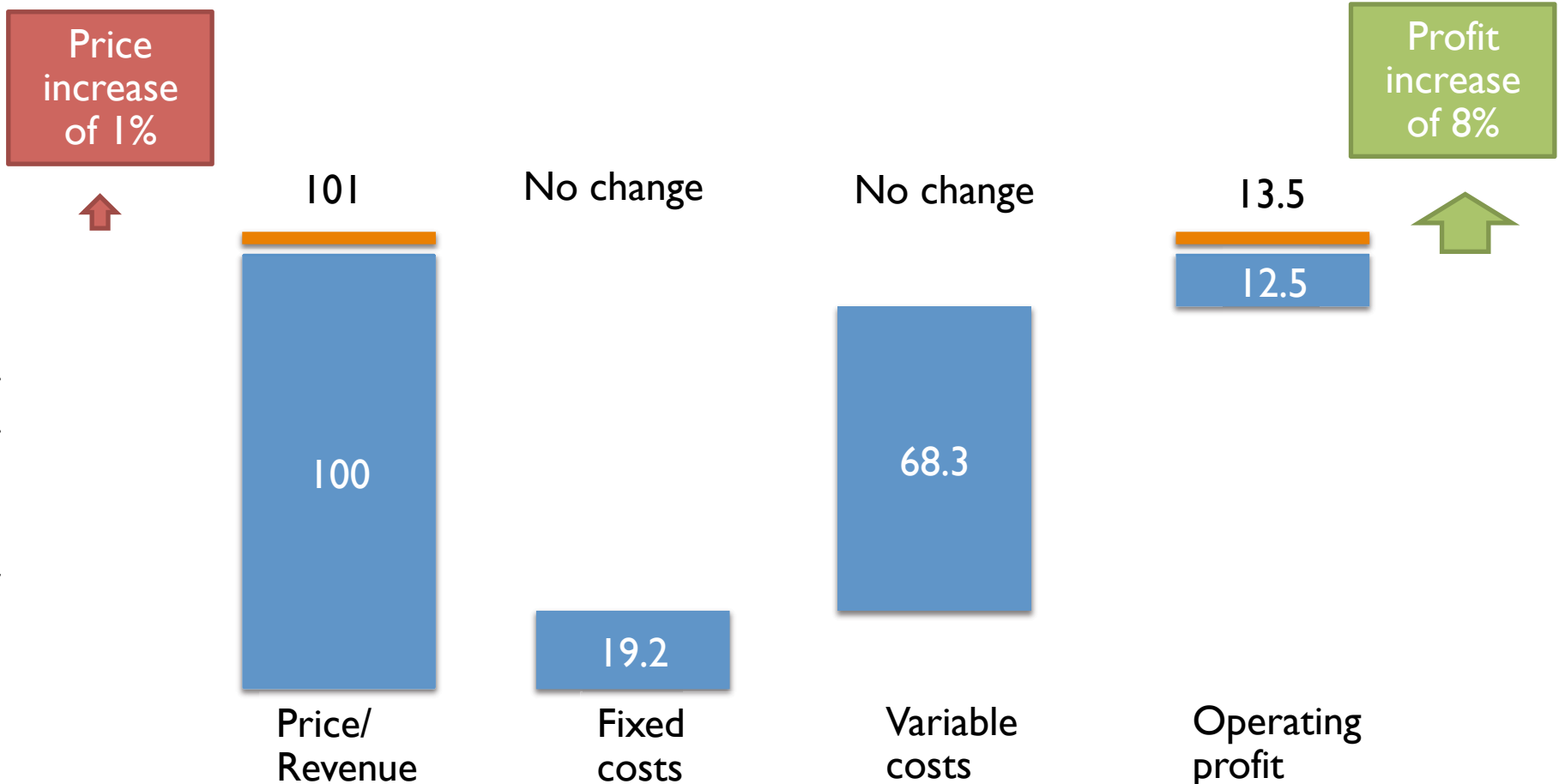


Source: Jiang and Hansen, 2016; Osterwalder and Pigneur, 2009

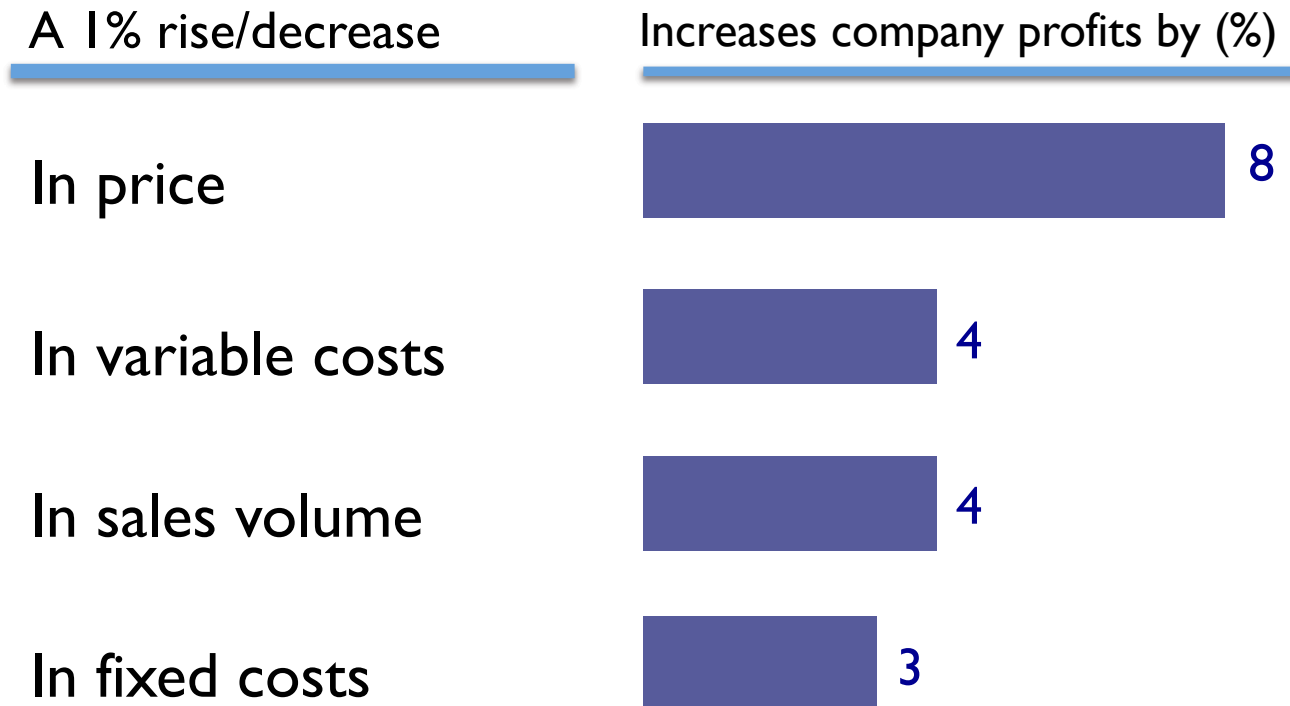
Everything in your business works to justify your value for a price

The power of pricing

- Pricing has the highest impact on increasing profit



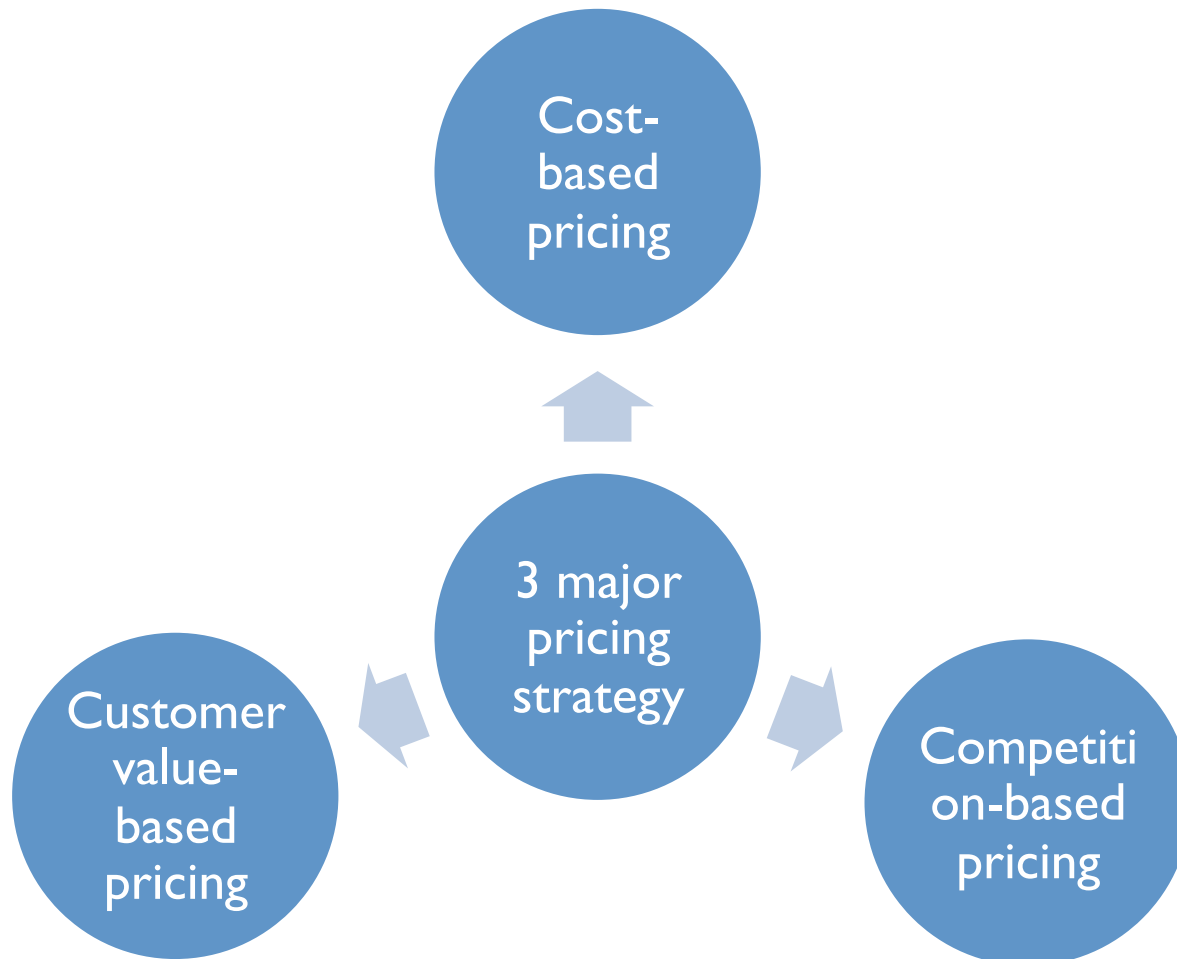
- Pricing has the highest impact on increasing profit



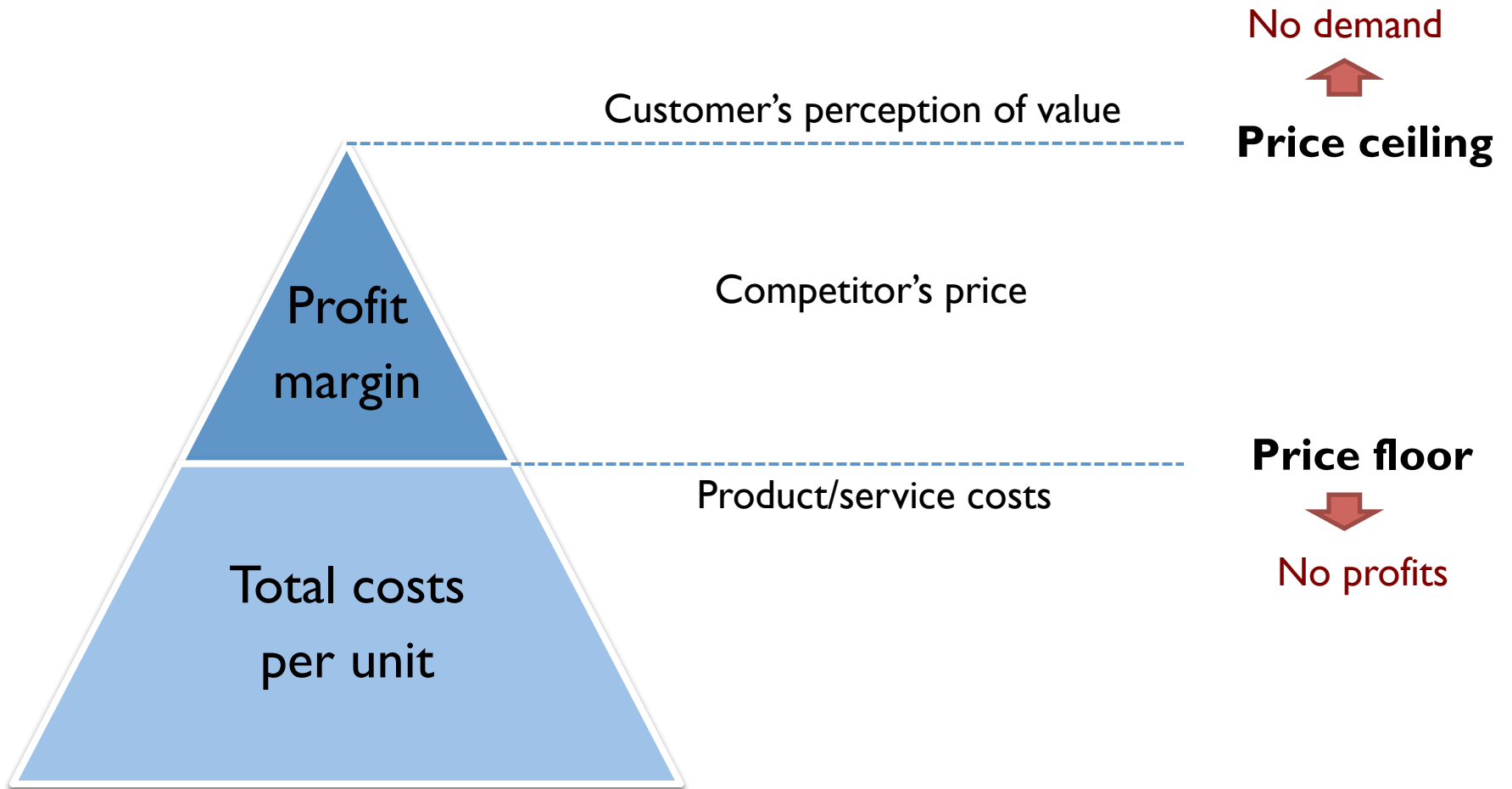
What is the issue?

Why is it important?

What can be done?



Price range





- Setting prices based on costs and desired profit margin
- Focus on seller's cost (price floor)

- The most common and simplest method of setting prices
- Data readily available

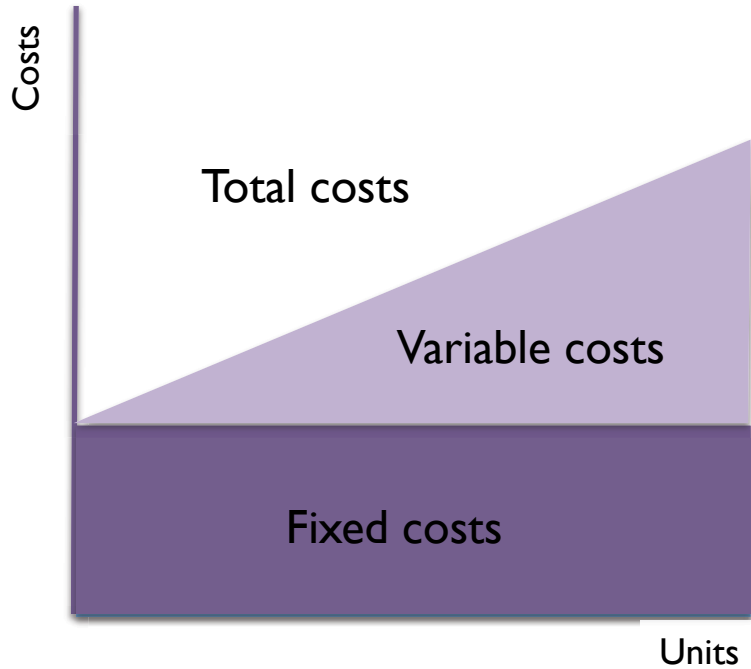


- Don't take demand (willingness to pay) and competition into account
- Produce sub-standard profitability

- Ryanair or Walmart



Cost-based pricing



Assumption: One can first determine sales levels, then calculate unit cost and profit objectives, and then set a price

Moving target

COST

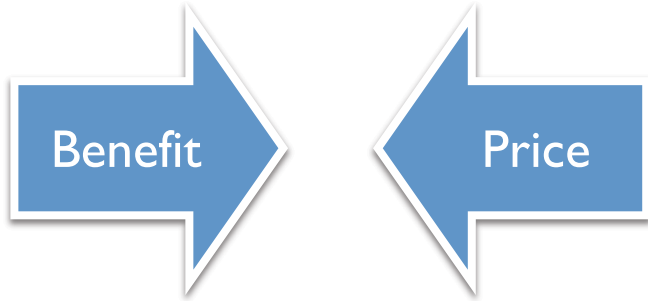
profit

PRICE



VOLUME





How much value customers place on benefits

Set the price accordingly

Design product/service to deliver desired value at target price

Derive target costs

Understanding sources of value for customer and value perceptions

Set the price to as a function of value



Setting prices based on customer's perception of value (price ceiling)



Take customer perspective into account



Data are difficult to obtain and interpret

Customer value is not a given



Apple
Lufthansa
BMW



Setting prices based on anticipated or observed price levels of competitors (price reference)



Data readily available
Low risk



Don't take customer into account

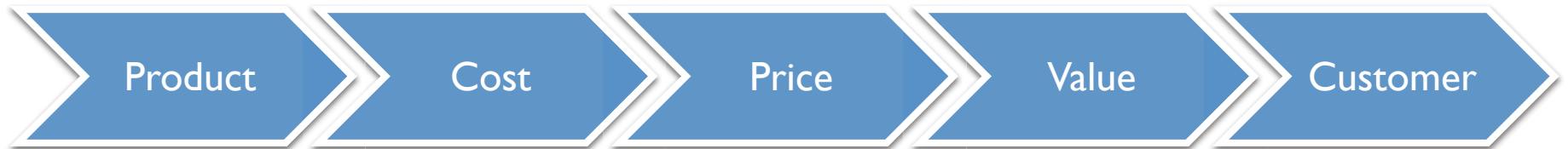
Lead to missed opportunity



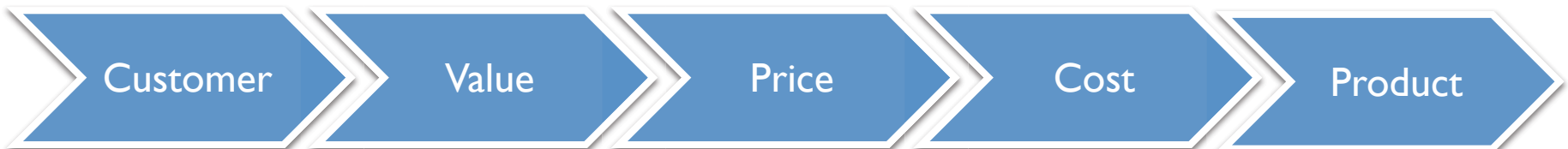
Gasoline industry

‘Our ValueScan survey, covering more than 200 companies in both consumer and business markets, found that firms developing and effectively executing **value-based pricing strategies** earn **31 percent higher operating income** than competitors whose pricing is driven by market share goals or target margins’ (Zale, 2014).

Cost-based pricing

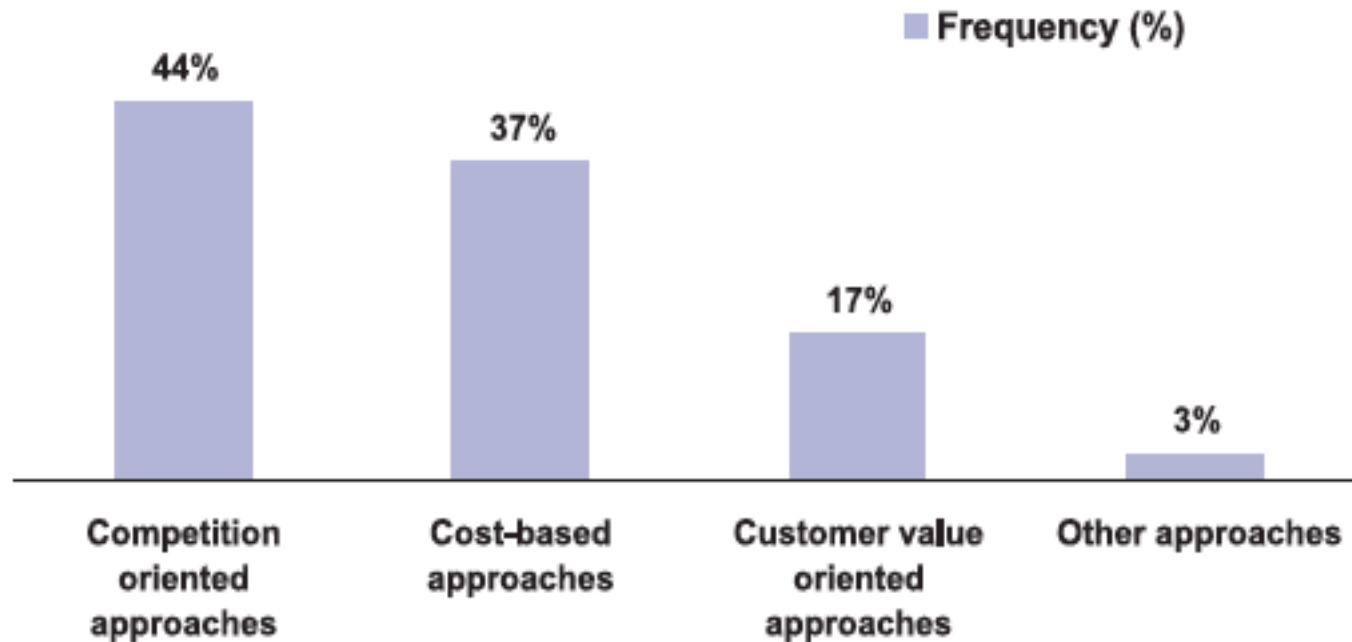


Customer value-based pricing



Adoption of alternative pricing strategies in practice

Summary of all published research (1983-2006) on the diffusion of alternative pricing approaches in practice





More market share **VS** Greater profit

PROFITABILITY => Pricing for profit

Making informed trade-offs between price and volume in order to maximize profits.

Thank you



PRICING

Dr. Liping Jiang, Associate Professor
Department of Operations Management
Copenhagen Business School

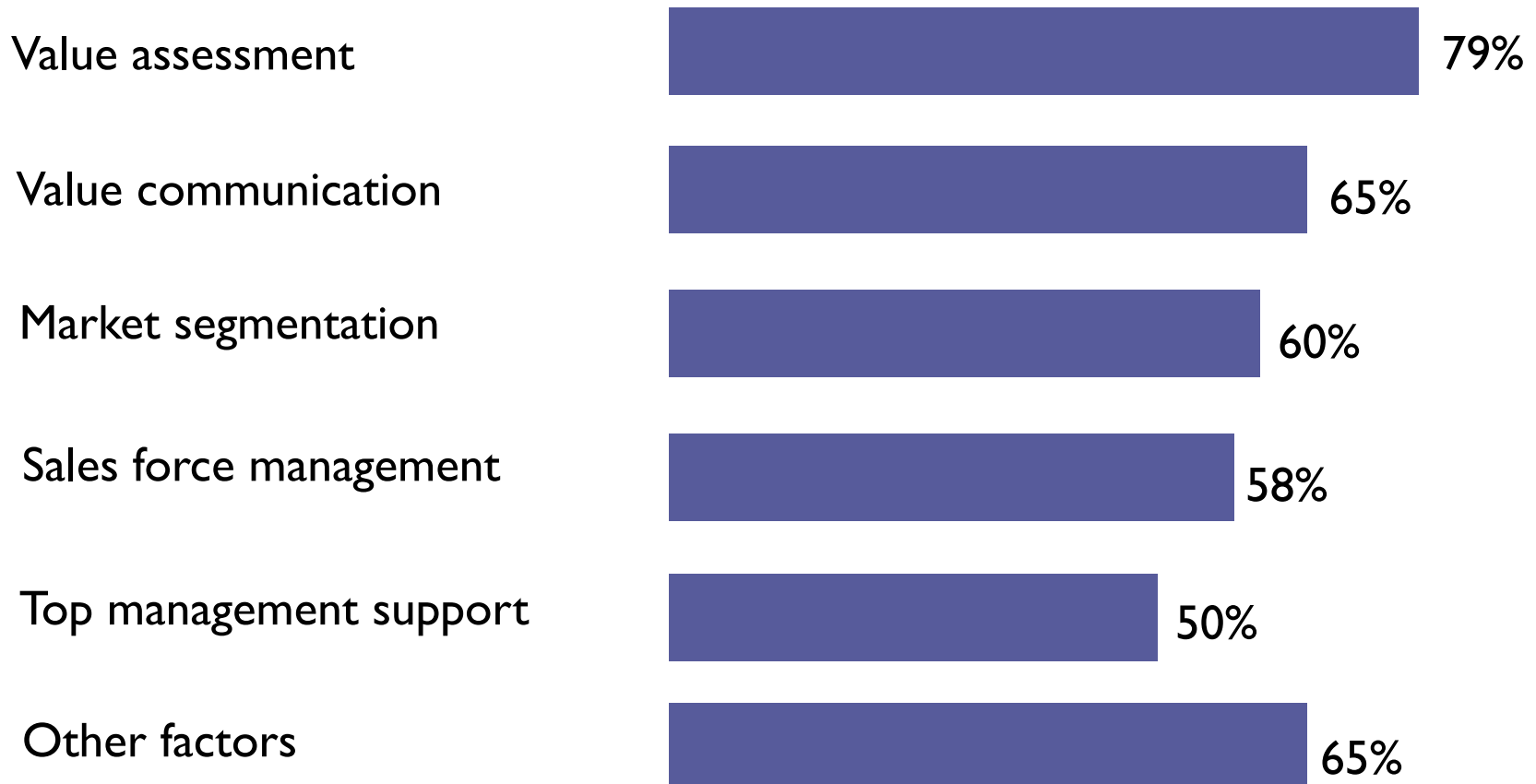
✉ lji.om@cbs.dk

- Customer value-based pricing strategy: is it your choice? If not, why companies resist?
- Suppliers - Which pricing strategy is right for your business and why? Would it be possible to have mixed pricing strategies?
- Customers - Which factors bring you the customer benefits (eg. price, quality, performance, finance, low risk)?

Summary of all published research (1983-2006) on the diffusion of alternative pricing approaches in practice



Obstacles to the implementation of value-based pricing strategies



Value assessment

Value to customer
= reference value (the price of customer's best alternative) + differentiation value (the value of whatever differentiates offering from the alternative)

Value communication

Product / service features
Customer benefits
Customer benefits in accordance with customer needs

Market segmentation

Sales force management

Top management support

Other factors

- Customer value-based pricing strategy: is it your choice? If not, why companies resist?
- Suppliers - Which pricing strategy is right for your business and why? Would it be possible to have mixed pricing strategies?
- Customers - Which factors bring you the customer benefits (eg. price, quality, performance, finance, low risk)?

Next steps

-
- Pricing seminar report
 - Price modeling
 - Bilateral industry dialogues and case studies

7 thematic seminars

- 1) Target costing as a strategic tool to commercialize the product and service innovation (3 Oct, 2017)
- 2) Pricing management and strategy for the maritime equipment manufacturers and service providers (14 December, 2017)
- 3) Optimization and handling of risks and cost within the service contracts (1 March, 2017)
- 4) The strategic decision making of ship owners in investing in maritime equipment manufacturers and service providers (7 June 2017)
- 5) Financing of new business models that can promote business and sales within the maritime industry – general (20 Sep 2017)
- 6) Financing of new business models that can promote business and sales within the maritime industry – cases (6 Dec 2017)
- 7) Negotiation and collaboration through international contracts (22 March 2018)